

Message Text

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INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

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R 161709Z JUL 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3746

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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DEPARTMENT PASS TO LABOR, TREASURY AND FRB

E.O. 11652: N/A

TAGS: ELAB, PINT, UK

SUBJECT: GOVERNMENT SUFFERING CUTS AND BRUISES, BUT
STILL SCRAPING BY

REF: (A) LONDON 20748; (B) LONDON 10997

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1. BEGIN SUMMARY: THE GOVERNMENT OBVIOUSLY HAS ITS

HANDS FULL AT HOME, QUITE APART FROM ITS EXTERNAL PROBLEMS SUCH AS WORSENING RELATIONS WITH UGANDA. JUST YESTERDAY (JULY 15), IN ANNOUNCING ITS INTENTION TO IMPOSE THE "GUILLOTINE" (CLOTURE) ON FIVE VERY CRITICAL AND CONTROVERSIAL PIECES OF LEGISLATION IT IS EXTREMELY ANXIOUS TO ENACT BEFORE PARLIAMENT RECESSES, IT SET OFF ANOTHER "COLD WAR" WITH THE TORIES (SEE SEPTTEL). BUT ITS MOST IMMEDIATE CONCERN IS TO ENACT THE PUBLIC EXPENDITURE CUTS FOR 1977-78. ON THIS FRONT, IT HAS REALLY "TALKED TOUGH" -- AND WITH SOME SUCCESS -- TO THE TRADE UNIONS AND TO THE PARLIAMENTARY LABOR PARTY. OUR CONVERSATIONS YESTERDAY (JULY 15) WITH TUC LEADERS JACK JONES AND LEN MURRAY CONFIRM OUR EARLIER ASSESSMENT THAT, HOWEVER RELUCTANTLY AND HOWEVER PAINFULLY, THE TUC WILL GO ALONG WITH THE CUTS. TRADE UNION LEADERS, HOWEVER, ARE SEEKING TO HAVE SOME SAY ABOUT THE "SHAPE" OF THESE CUTS AND REMAIN WORRIED ABOUT LONG-TERM IMPLICATIONS OF GENERAL BUDGET TIGHTENING. JONES, TOO, IS CERTAIN THAT THE LABOR PARTY LEFT WILL NOT USE PUBLIC EXPENDITURE CUTS TO BRING DOWN THE GOVERNMENT. END SUMMARY.

2. WHEN THE PRIME MINISTER AND THE CHANCELLOR MET WITH THE IMPORTANT TUC ECONOMIC COMMITTEE ON WEDNESDAY, JULY 14, THOSE UNION LEADERS WHOSE MEMBERS WOULD BE MOST AFFECTED BY EXPENDITURE CUTS WERE, OF COURSE, MOST VEHEMENTLY OPPOSED TO THEM. THESE INCLUDED MEN LIKE ALAN FISHER, GENERAL SECRETARY OF THE NATIONAL UNION OF PUBLIC EMPLOYEES, AND GEOFFREY DRAIN, LEADER OF THE NATIONAL ASSOCIATION OF LOCAL GOVERNMENT OFFICERS (ALTHOUGH DRAIN IN PRIVATE TALKS WITH US HAS TAKEN A SOMEWHAT RESIGNED VIEW--SEE REF A). HEALEY REPORTEDLY ACKNOWLEDGED TO HIS TUC AUDITORS THAT AS MANY AS 70,000 PUBLIC SERVICE WORKERS COULD BE OUT OF WORK AS A RESULT OF PUBLIC EXPENDITURE CUTS. SOME UNION LEADERS, SUCH AS FRANK CHAPPLE (ELECTRICAL AND PLUMBING) AND TOM JACKSON (POSTAL), ACCEPTED DR. HEALEY'S ECONOMIC MEDICINE, BUT THE BULK WERE NOT VERY HAPPY TO GET HIS PRESCRIPTION NO MATTER HOW SENSIBLE THEY FELT HIS DIAGNOSIS TO BE. HOWEVER, IT WAS APPARENT THAT THE UNIONS WERE NOT HEADING FOR CONFRONTATION. LIMITED OFFICIAL USE

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TION.

3. THE FORMIDABLE TEAM OF CALLAGHAN AND HEALEY FOLLOWED THEIR SESSION WITH THE TRADE UNION LEADERSHIP BY ANOTHER STAR PERFORMANCE -- AND PERHAPS EVEN TOUGHER TALK -- BEFORE THEIR BROTHERS OF THE PARLIAMENTARY LABOR PARTY. THEY MADE IT VERY CLEAR TO THE PLP THAT THE GOVERNMENT'S SURVIVAL DEPENDS ON AN ECONOMIC STRATEGY INVOLVING EXPENDITURE CUTS NEXT YEAR. HEALEY DID NOT PROVIDE DETAILS ABOUT THE CUTS HE SEEKS TO MAKE, BUT THE FINANCIAL TIMES

(JULY 15) NOTES THAT "EVERY SPENDING MINISTRY HAS BEEN ASKED BY THE TREASURY TO MAKE SOME CONTRIBUTION TO THE CUTS DUE TO BE ANNOUNCED IN BROAD TERMS AT THE END OF NEXT OR THE BEGINNING OF THE FOLLOWING WEEK." THE FINANCIAL TIMES REFERRED TO AN "OVERALL FIGURE OF 1 BILLION POUNDS AS HAVING BEEN PLACED BEFORE INDIVIDUAL GOVERNMENT DEPARTMENTS BY THE CABINET."

4. WHEN WE SPOKE WITH JONES YESTERDAY, HE EMPHASIZED THAT THE TUC WOULD CERTAINLY NOT BREAK WITH THE GOVERNMENT OVER PUBLIC EXPENDITURES OR OVER UNEMPLOYMENT FIGURES. AND WHEN WE ASKED HIM WHETHER HE THOUGHT THE LABOR

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PARTY LEFT (TRIBUNE GROUP) MIGHT TRY TO BRING DOWN THE GOVERNMENT ON THE EXPENDITURE CUT ISSUE, HE RESPONDED BLUNTLY AND ADAMANTLY: "NO*" ON THE OTHER HAND, HE INDICATED THAT THE TUC WILL BE TALKING FURTHER TO THE GOVERNMENT ON THE "SHAPE OF THE CUTS." HE SAID: "WE WILL BE PULLING OUR OWN WEIGHT. WE REALIZE THE GOVERNMENT
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MUST REDUCE ADMINISTRATIVE COSTS BUT WE NEED TEACHERS, PUBLIC TRANSPORT, AND STREET CLEANERS -- AFTER ALL." AS FOR THE UNEMPLOYMENT FIGURES TO BE ANNOUNCED JULY 20 (WHICH WILL SHOW A LARGE JUMP IN THE NUMBER OF SCHOOL LEAVERS), JONES EXPECTS THE GOVERNMENT TO TAKE SPECIAL REMEDIAL MEASURES.

5. LEN MURRAY, WHO HAS JUST RETURNED TO WORK AFTER RECOVERY FROM A MILD HEART ATTACK, SPOKE IN BROADLY SIMILAR TERMS AS JACK JONES. THE TUC, HE TOLD US, CLEARLY UNDERSTOOD THE ECONOMIC DIFFICULTIES FACED BY THE COUNTRY. THE TUC, HOWEVER, WANTS TO SEE A SHIFT OF RESOURCES TO THE PRODUCTIVE SIDE OF THE ECONOMY -- MANUFACTURING -- AT THE EXPENSE OF OTHER FORMS OF PUBLIC EXPENDITURE. HOWEVER, SINCE HEALEY HAS NOT YET DELINEATED TO THE TRADE UNIONS WHERE HE WANTS CUTS MADE, THE TUC, SAID MURRAY, IS SEEKING ANOTHER MEETING WITH HIM IN ORDER TO CLARIFY THIS QUESTION AND TO REITERATE ITS OWN PRIORITIES. MURRAY ALSO EMPHASIZED THAT THE GOVERNMENT SHOULD NOT CONTINUOUSLY BEND TO EXTERNAL PRESSURE TO CUT, SINCE THE "APPETITE IS ENLARGED ON THAT WHICH IT FEEDS. AND STERLING, AFTER ALL, IS STILL SOUND."

6. COMMENT: THE GOVERNMENT IS GOING THROUGH ITS TIME OF TRAVAIL AND IS SURELY SUFFERING A "LONG HOT SUMMER." THE CONSERVATIVES ARE UP IN ARMS OVER THE "GUILLOTINE" STRATEGEM OF THE GOVERNMENT TO GET ITS FIVE KEY BILLS THROUGH BEFORE THE RECESS. THE TRIBUNE GROUP SNIPES AT IT FROM THE LEFT AND OCCASIONALLY DEALS IT A HUMILIATING ALTHOUGH -- THUS FAR -- NOT A MORTAL BLOW. BUT THE TRADE UNIONS, WORRIED AS THEY ARE ABOUT THE IMPACT OF EXPENDITURE CUTS, ARE LIKELY TO GIVE THE GOVERNMENT LITTLE DIFFICULTY, AT LEAST FOR NOW.

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